

State Pension (Contributory) calculation changes

Pension Advisory Services

The Dept. of Employment Affairs and Social Protection announced on 23 January 2018 the first steps in moving to a Total Contribution Approach for calculating a person's entitlement to the State Pension (Contributory).

Key Points

- The full details of the new Total Contribution Approach (TCA) are not finalised, and the Department intends to carry out a public consultation in early 2018.
- Under the new arrangement as announced, a person will need 40 years of social insurance PRSI contributions to qualify for the full rate State Pension (Contributory)
- HomeCaring credits will be available under the TCA calculation, subject to a maximum of 20 years of credits
- The new arrangement will initially apply to those who reached state pension age since 1 September 2012. They will have the option to be assessed on the current "Yearly Averaging" calculation or the new TCA calculation, and will get whichever is better for them.
- While the introduction new TCA calculation has an effective date of 30 March 2018, people will not be able to apply to be assessed until Quarter 4 2018. If this results in higher payments these will be paid from early 2019 and backdated to 30 March 2018.
- If a client qualifies for a higher pension under the TCA calculation, this will not count toward the €12,700 specified income ARF requirement until the client is in receipt of the higher payment.
- The TCA calculation will apply to all new pensioners from 2020, replacing the Yearly Averaging calculation.

What is the Total Contributions Approach?

Under the new Total Contributions Approach (TCA) the total of a person's social insurance PRSI contributions paid and credited will determine the level of State Pension (Contributory) that they receive. A person will need 40 years of PRSI contributions paid or credited in order to receive the full rate State Pension (Contributory). People with less than 40 years will receive a pro-rata fraction of the full rate. That is, people will receive $\frac{1}{40^{\text{th}}}$ of the full rate state pension for each year of social insurance contributions

A person will need at least 520 social insurance PRSI contributions to qualify for any payment of the State Pension (Contributory), which is a requirement that applies currently.

What is the current Yearly Averaging approach?

In order to qualify for a State Pension (Contributory) you must be aged 66 and have enough Class A, E, F, G, H, N or S social insurance contributions.

You need to:

- Have paid social insurance contributions before age 56
- Have paid at least 520 social insurance contributions
- Have an average of at least 10 weeks contributions over the years since you first started to pay

The yearly average is calculated by adding together the social insurance PRSI contributions paid and credited over a person's working life, and dividing by the number of years from when a person first paid social insurance to the year before reaching state pension age.

Average weeks of PRSI Contributions per year	Rate per week (from 10 March 2017)
48 or over	€238.30
40 - 47	€233.80
30 - 39	€214.20
20 - 29	€202.80
15 - 19	€155.20
10 - 14	€95.20

The full rate State Pension (Contributory) is due to increase to €243.30 per week from 26 March 2018 with proportional increases for those on reduced rates.

What are the anomalies arising from the Yearly Averaging calculation?

It has been known for many years that the Yearly Averaging calculation means that a person's rate of state pension is not linked to their total contributions. A person could work and make social insurance PRSI contributions for 10 years from age 56 to 66 and qualify for the full rate state pension (contributory). In contrast someone working and making social insurance PRSI contributions for a total of 30 years from age 25 would only qualify for 90% of the full rate. People with gaps in their social insurance PRSI contribution record can therefore be disadvantaged under the Yearly Averaging calculation.

For this reason the Dept of Employment Affairs and Social Protection have for a number of years been considering moving to a Total Contribution Approach. Their view is that by 2020 the historical records of social insurance PRSI contribution since its introduction in 1953 will be such that all people can be assessed on a Total Contribution Approach when they reach state pension age.

The previous expectation was that the move to a Total Contribution Approach would require a total of 30 years social insurance PRSI contributions, that is you would receive 1/30th of the full rate state pension for each year of social insurance contributions. The TCA calculation announced now requires a total of 40 years social insurance contributions, that is receiving 1/40th of the full rate state pension for each year of social insurance contributions. A consultation will be carried out in early 2018 and so the final details are not yet known, but a 40 year total contribution requirement now looks more likely in order to receive the full rate State Pension (Contributory).

Why is this change to TCA being brought in first for those who reached state pension age since 2012?

From 1 September 2012 changes were made to the yearly averaging bands to qualify for the State Pension (Contributory) for people reaching state pension age from that date on. There was no change for those with 48 weeks or more who qualified for the full rate. The changes in particular affected those with between 10 weeks and 39 weeks yearly average. The people affected by that change from 2012 on will be the first assessed on the new TCA calculation.

What social insurance credits will be included under TCA calculation?

Under the new TCA calculation model, in addition to paid social insurance contributions, new HomeCaring credited contributions will be available for periods of up to 20 years of homemaking and caring duties. Caring periods for children up to age 12, and for a person of any age who requires full time care and attention, may be included in this calculation. These are similar rules to the current Homemaker's Scheme which allows that up to 20 years may be disregarded when the Yearly Averaging calculation is done.

Up to 10 years credited contributions are also available for other reasons, examples include credits while on social welfare illness benefit, maternity benefit, or for attending training courses with SOLAS (formerly FAS). There will be a cap of 20 years on the overall number of credited contributions that may be used in the TCA calculation.

State Pension Age Summary

Year	State Pension Age	Year of birth of those at State Pension Age
2014 to 2020	The State Transition Pension was abolished 1 January 2014, thereby increasing pension age to 66	1948* to 1954
2021 to 2027	Increase to 67	1955 to 1960
2028 onwards	Increase to 68	1961 or later

* Some people born in 1948 may have qualified for the State Pension at 65 in 2013.

For more information on State Pension benefits see the Department of Employment Affairs and Social Protection's website www.welfare.ie

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